UNITED STATES BANKRUPTCY COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA

In Re:	)	
	)	
Cabernet Holdings, LLC	)	B-10-50602 C-11
	)	
Debtor.	)	

OFFICE OF THE BANKRUPTCY ADMINISTRATOR
FINANCIAL ESTATE ANALYST'S REPORT

On the 4th day of May 2010, I met with the parties managing the above business. For the information of the Bankruptcy Administrator and the Court, I make the following report of my observations on:

Name of the business: Cabernet Holding, LLC

Location of the business: 301 Vineyards Crossing
Lexington, NC 27292

The above address is the address of the motel. The business address of the debtor is 11 Union St. South, Ste. 300, Concord, NC 28025.

What type of service or product does the business produce?
The debtor is a Holiday Inn Express motel. In addition, there is an out parcel that could be used for a restaurant.

Attorney for Debtor-In-Possession:
Brian P. Hayes, Esquire
Post Office Box 444
Concord, NC 28026-0444

Does the debtor own or lease?
The debtor owns the location.

If leased, what equipment and furnishings are included with the lease?
Not applicable.

Business management:
The debtor is managed by Strand Development company. Strand employs all of the employees to run and maintain the motel. The management fee is 4% plus the debtor reimburses Strand for all expenses such as the payroll and costs of maintenance which are paid by Strand.

Is the manager also the owner of the business?
The owners of the debtor are Mr. Dan A. Boone and Mr. Leonard Sossamon. They are both member-managers with each holding a 50% interest in the debtor.

How many employees does the business have?

The debtor stated that it had no employees and that all of the individuals that work for the debtor are actually employees of the management company and that the debtor reimbursed the management company for costs.

The motel had seventeen or eighteen employees employed by the management company and paid for by the debtors.

Has the number of employees decreased, increased, or remained the same since the filing of the petition?

The number of employees at the motel has stayed the same.

How long has the business been in operation?

This debtor's operation has an interesting history. The members organized the LLC in September 2006 for the purpose of constructing and selling a motel, The real property was acquired in November 2006 and construction started in May 2007. The motel shell was completed in June 2008. At the time the debtor started to build the motel there was a bone fide buyer who was to take possession at the end of construction. However, when the time to close on the motel came, the buyer was no longer able to finance the purchase and the debtor was left with a shell. The debtor's members decided to invest additional funds into the motel and to finish it out the motel adding the furniture, fixtures, and appliances that are generally the responsibility of the buyer. This left the debtor owning a new motel. They engaged a management company and started operations.

What was the gross income from all sources for the last three calendar months?

Month	Revenue	Net Income
January 2010	$100,712	$ 2,343
February 2010	$ 98,837	$ 3,229
March 2010	$123,841	$15,610

The above information was obtained from the profit and loss statements for the Holiday Inn Express provided by Strand Development Company and is only applicable to the motel. However, it is my understanding that the motel is the sole asset of the debtor and that all income is generated by the motel.

What was the net profit/(loss) for the latest full month, if available?

See above

What was not considered in computing the profits?

Unknown.

What is the present bank balance?

The motel balance sheet for March 31, 2010 reflects a total cash balance of $112,855.

Are there any outstanding checks which they have not deducted from this bank balance?

Unknown.

Is the payroll being paid on time?

The debtor stated that the motel payroll was being made on time. The debtor indicated that it had no employees except the members and that the members did not receive compensation.

Does the debtor get credit from suppliers?

The debtor gets credit from Strand, the property management company, who is reimbursed for supplies provided to the debtor.

If so, what percentage of purchases is on credit?

See above.

What percentage of deliveries is cash on delivery?

See above.

What amount of finished goods are on hand?

The debtor's product is the motel. The motel has eighty-eight rooms.

Is inventory adequate to carry on business in a normal way?

Not applicable.

What is the amount of raw product inventory on hand?

Not applicable.

How is the inventory controlled?

Not applicable.

How has raw product inventory fluctuated in the last three months?

Not applicable.

Does the business have any vehicles?

No.

If they lease any of the vehicles is the payment's current?

Not applicable.

Are the payments on the owned vehicles current?

Not applicable.

Who are the top three officers or managers of the business by name and salary?

The debtor has two member-managers, Mr. Dan A. Boone, and Mr. Leonard Sossamon who are each 50% members. It is my understanding that neither of them is receiving a salary at this time. The debtor has engaged a property management firm, Strand Development Company, who operates the motel for a fee of 4% plus reimbursed costs and expenses.

Are salaries in line with business operations?

The member/manager does not take a salary.

Were the debtor's books changed over to a new system after they filed the petition?

The debtor indicated that they had not yet segregated the accounts, but that it had opened the DIP accounts.

Have all social security and withholding taxes been kept up to date since the filing of this case?

The debtor indicated that they had no employees and no payroll. Therefore, there were no taxes to pay.

Are they filing the tax returns properly and on time?

Yes.

How much indebtedness has the debtor incurred since this case was filed?

None.

How much of the indebtedness, incurred by the debtor since the filing of this case, remains unpaid?

See above.

Is this a larger amount than it was last month?

See above.

Is the business seasonal? If so, what is the good season and what is the bad season.

Yes. In this type of motel where a good deal of the debtors business comes from business travelers, it appears that occupancy tracks the general business cycle with a slower period in the December-January period. This is offset to some degree by holiday travel with holiday travelers picking up some of the vacancies that occur when business travel slows down. In addition, there is a "Wedding Season," in May and June which brings increased occupancy.

Is the business operating at full capacity?

The debtor indicated that the motel was at approximately 61% occupancy.

Has the business outlook improved over the last three months?

The debtor feels that things have improved during the past three months. There has been an increase in corporate business and there seems to have been an increase in the number of repeat travelers. In addition, the debtor feels that the current increased activity in the construction industry is indicative of general increase business activity which should forecast an increase in business travelers which in turn should lead to increased occupancy.

Has the debtor discussed a Plan with the debtor's attorney?

Yes. The debtor feels that it will be able to propose a plan to reorganize funded by operations. In addition, they are looking into new financing.

Are any steps being taken to file a Plan?

See above.

What is the biggest problem confronting the debtor at the present time?

The debtor is looking for third party financing to service the NewBridge debt. There was some concern over the current economy and the change in banking philosophy.

The motel appears to be on the way to getting up and running based on the financial information that we have received. It appears to be running ahead of budget.

However, the budgeted occupancy rate in the 2010 budget seems low with a projected high of 64% in October 2010 and an average fro the year of 48.95%. The budget does reflect a positive cash flow of approximately $110,000 (the projected net loss of $319,591 adding back the depreciation of $420,000 and the amortization of $9,600 would show a positive cash flow of $110,009).

The concern would be the debt principal. Is the $110,000 enough to service a mortgage of $7,198,585 and maintain the premises?

The debtor budgets $16,000 per month ($192,000 for the current year) for interest and penalties. Using a mortgage balance of $7.2 million, this represents an interest rate of around 2.7% (192000/7200000) with no contribution to the principal. If the debtor's mortgage rate is greater than 2.7%, the difference would eat into the amount of cash available to pay down the mortgage.

What suggestions, if implemented, might help reduce overhead costs?

Unknown

Does the debtor have any surplus property which could be sold to generate working capital? If so explain.

The debtor has a "restaurant" pad that has already been prepared. This piece of property could be sold to generate funds.

Is outside financing necessary? If so, is it likely the business could get needed financing?

The debtor is looking for third party funds.

Is any effort being made to improve the volume of business? Indicate how.

Unknown. The debtor has engaged a property management firm (this is a firm that manages a number of properties and is not owned by the debtor)

The income statements for the motel make it appear that the motel might be headed in the right direction, but leaves some concerns.

From the motel income statements it appears as if the motel has generated a positive net operating income for the months of January, February, and March and that year to date the operating income is running ahead of budget. (The three months ending March 31, 2010 show a total actual net operating income of $69,183 compared to budgeted net operating income of $23,298.

The net income is also running ahead of budget with a net income for the three-month period of $21,183 compared to a budgeted loss of $132,102, but this is somewhat misleading as the budgeted depreciation and amortization of $107,400 is not reflected in the net income figure. The net income does reflect interest of $48,000 ($16,000 per month) for the period. It would appear that this is interest only and does not include any reduction in the loan principal.

The debtor indicated that the occupancy rate has been increasing faster than anticipated which would help explain the positive results.

What other changes would help improve the volume of business?

None.

What type of advertising is being used?

Unknown

What are the prospects for a successful reorganization?

The motel appears to be on the way to getting up and running based on the financial information that we have received. It appears to be running ahead of budget. However, the budgeted occupancy rate in the 2010 budget seems low with a projected high of 64% in October 2010 and an average fro the year of 48.95%. The budget does reflect a positive cash flow of approximately $110,000 (the projected net loss of $319,591 adding back the depreciation of $420,000 and the amortization of $9,600 would show a positive cash flow of $110,009). The concern would be the debt principal. Is the $110,000 enough to service a mortgage of $7,198,585 and maintain the premises?

What are the potential problems for a successful operation for reorganization?

See above.

In your opinion, what course of action should the Plan provide for?

The debtor should be allowed a reasonable period to see if they can work out the issues with the bank, increase occupancy rates (and profitability), and perhaps find a third party source of funds.

Should this business continue to operate until a Plan can be formulated?

Yes. However, operations should be monitored to be sure that post petition operations do not create a larger problem. If after a reasonable period the debtor is unable to confirm a plan, consideration could be given to conversion and allowing a trustee to wind up the debtor's affairs.

If not, give recommendations as to disposition of the property.
See above.

Is the owner or office or general manager making his best effort to make a success of the business?
Yes.

Should the present management continue to operate the business?
Yes.

If the present management is inadequate, what alternatives should be considered?
See above.

Observations, recommendations, and comments:

Respectively submitted, this the __25th___ day of May 2010.

__/s/ John Peterson__________
John E. Peterson
Financial Estate Analyst

U.S. Bankruptcy Administrator
P.O. Box 1828
Greensboro, NC 27402
(336) 358-4170